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DAYCO FILE DUBBED "SECRET"

Citing a potential 'serious' threat to national security, the federal government has refused to release files relating to Dayco Corp., and the Ohio firm's dispute with a New York trade agent about bogus Soviet orders for Dayco goods, it was reported Sunday.

The government said nearly all of the more than 200 pages of documents, which include CIA and FBI files on the investigation, are highly sensitive and 'secret', Cox News Service reported.

The investigation centers on a dispute between Dayco, based in Dayton, Ohio, and trade agent Edith Reich, who placed \$120 million in phony Soviet orders written by Ms. Reich for industrial hoses and V-belts manufactured by Dayco.

In opposing the release of the information, the government revealed that it had conducted covert investigations- both in the U.S. and overseas- in connection with either Dayco, Ms. Reich, or the companies she heads.

The government's 'acknowledgement of involvement by the Central Intelligence Agency, plus its admission that the CIA investigations relied on 'undercover' agents to 'collect foreign intelligence' raise new questions in the controversy,' said the news service.

Until recently the controversy, which began in 1979, has been looked at as a complex business-fraud case.

References to the CIA and FBI documents were contained in papers filed in U.S. District Court in Washington in response to an attorney representing a Dayco stockholder who has sued company officers and directors.

Donald B. Lewis, Philadelphia, had requested that the Justice Department release any information on the Dayco investigation, the background of Ms. Reich and the two companies she heads, Foreign Transactions Corp., New York, and Trachem Co. Ltd., London.

In the suit, Lewis' client charges 'mismanagement and waste' in connection with the losses the company sustained from the phony orders.

In a response to Lewis' request, the government disclosed that the documents contain detailed descriptions of intelligence investigations conducted by the FBI and CIA.

The government did release copies of most of the 200 pages, but with the most of pages blacked out with the exception of the word 'SECRET' or 'CONFIDENTIAL'. The article stated that several documents indicate that the files were directed to or were authored by the director of the FBI.

'The withheld information relates to the consideration, implementation and, or results of certain intelligence activities conducted by the CIA,' stated an affidavit accompanying the government's response.

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"Disclosure of the withheld information would compromise the activities themselves, as well as certain procedures and methods used by the CIA to accomplish the activities. Such a compromise could result in the loss of important intelligence concerning the activities and intentions of a foreign country, with potential of severe ramifications for the national security of this country," the affidavit stated.

The article said Ms. Reich could not be reached for comment, however, Larry Glaister, an official with Foreign Transactions Corp. said Ms. Reich and the company continue to do business in the Soviet Union.

Dayco spokesman Thomas E. Ryan said late last week that Dayco was unaware of the CIA and FBI documents and had no reason to believe that it was the focus of any investigation by the agencies.

The U.S. Attorney's office in New York is continuing the investigation into the phony orders. The Securities and Exchange Commission is also investigating.